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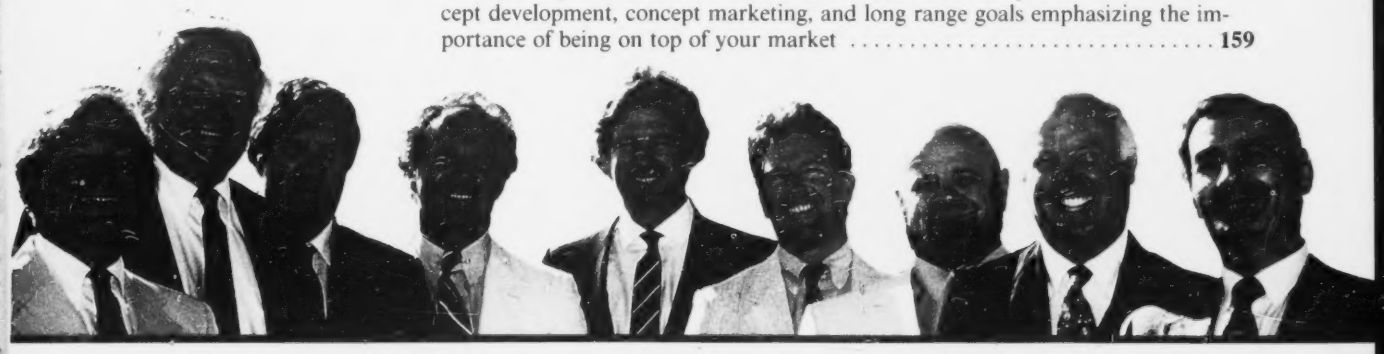

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Cover photo by George Ward. Denver Roundtable participants (l. to r.) Roi Davis, Dean Petersen, Frank Day, Tom Wilscam, Todd Disner, Bill James, Wayne Dozier, Steve Knowlton, and Philippe Colom.

Minneapolis-based Byerly's places a strong emphasis on deli business.

Market Segment Report

Supermarkets cater convenience to one-stop shopper

by Rona Gindin

Restaurants continue to reap the benefits of society's move toward smaller households, as individuals living alone and those in dual-income households tend to dine out more than people of other population segments. Holding their own, supermarkets have been expanding services to create a new niche attractive to this customer who prefers to stay out of the kitchen.

Through their deli departments, supermarkets appeal to customers who prefer to spend neither the time nor the money to cook or dine out by offering prepared meals for home consumption. Ease of preparation is the primary attraction. But the one-stop shopping convenience of purchasing the meal in the supermarket, a stop on every American's list at least once a week, adds appeal to the option.

Accompanying the delis in many chains are salad bars, bakeries with freshly baked products, and seating for on-site consumption. Separate restaurants elsewhere in the store help keep foodservice dollars in some supermarkets, but a variety of obstacles have cut back that movement.

"Three predominant factors affect the supermarket of the 80s," points out Karen Brown, a spokesman for the Food Marketing Institute (FMI) in Washington, D.C. "One is changing demographics and lifestyles. More people are living alone, more married couples have two incomes, and the popuiation of retirees is growing. Second, with today's new technology supermarkets can track customer purchasing patterns and more accurately determine what they're buying. The use of computerized scanners dominates that trend. Last, consumers show a stronger interest than ever before in health and nutrition.

Delis

Most take-out meals are available from service delicatessen counters, which generally consist of glass-housed meats, cheeses, and now prepared foods. They are sliced or measured to order by supermarket workers. Adding a quality image to one-stop shopping convenience, service delis offer the consumer visually appealing presentation, taste testing opportunity, and variety.

According to industry publication *Supermarket News,* service delis have traditionally been traffic builders rather than profit makers.

Some chains have decided to stick to the self-service ease of the last three decades rather than beef up service. They claim that high labor costs and lack of foodservice knowledge diminish service deli profits despite product profitability. Merchandising capabilities in a self-service deli are more limited.

According to figures by the FMI and *Progressive Grocer,* an industry publication, 53 percent of the 29,550 U.S. supermarkets have service delis and 25 percent have self-serve delis; there is an overlap. Of new stores, however, 86.8 percent incorporate service delis.

Delis with carry-out, FMI distinguishes, are in operation in 50.3 percent of U.S. supermarkets.

Deli sales in supermarkets reached $4 billion in 1983, according to *Progressive Grocer.* Deli sales account for 3.5 percent of total sales in those supermarkets that have delis, and 2.2 percent of supermarket sales overall. The average supermarket has annual sales of $6 million.

Traditional hot deli items include barbecue ribs, fried chicken, lasagna, and salisbury steak. In small cities and rural areas, only fast food restaurants compete with the supermarkets who have these offerings.

With the new interest in gourmet foods, chains on both coasts as well as in some other major metropolitan areas have expanded their menus. Pasta salads, seafood salads, pesto chicken, and other "trendy" items compose a more sophisticated mix. These same areas house independent "gourmet take-out" specialty shops.

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"America is in the middle of a trend where more people live to eat rather than eat to live," notes Robert Mohel, vice president of product development and quality control for Grand Union, based in Elmwood Park, New Jersey. "One of the outlets in which consumers can fulfill their needs is the supermarket."

Grand Union recruited Mohel from the restaurant industry. Through his influence, trained chefs, many Culinary Institute of America graduates, work in each store. With their culinary backgrounds, they have brought to Grand Union a knowledge of food, presentation, and service.

"The one-stop shopping convenience appeals to a strong base of repeat customers," Mohel adds. "Working couples with no time to prepare dinner can purchase a restaurant quality meal while they're buying their basic groceries."

Marsh Supermarkets, a 75-unit chain based in Yorktown, Indiana, found much greater success with take-out prepared foods than with seating. Hot entree-only items, as opposed to full dinners for take-out, suit the chain's needs. "We found our niche. No more hamburgers for us," says Chet Robie, deli/bakery merchandiser.

In larger units, the day's meals sit on a hot steam table for patrons to see. In other stores, entrees are sold cold to be reheated at home.

After its attempt at restaurants, the chain had tried serving carry-out dinners including entree and vegetable. "We had some success with that but portion control was a problem," Robie says.

Customers can pick up a vegetable or other accompaniment at the nearby deli counter instead.

Lucky Stores is another chain expanding into service delis with prepared foods. "It's a trend, it's 1984; it's what the consumer wants," points out Chuck Flowers, head grocery buyer and vice president, northern food division for the Dublin, California-based company.

Ravioli, spaghetti, entrees, sandwiches with a variety of luncheon meats, and a few salads help increase store traffic.

"The service deli is labor intensive," Flowers admits, as do executives of other supermarket chains, "but it can be profitable with a high enough gross."

According to *Supermarket Business*, the median cost of labor as a percentage of sales in a service deli department is 20 percent. The mean average is 22.5 percent, which represents twice the total store labor cost, according to FMI.

Deli business accounts for eight to 12 percent of sales, rather than the standard two or three percent, at the Minneapolis area's Byerly's stores. Upscale atmosphere and well-to-do customer base are conducive to strong deli sales. The six supermarkets owned by Don Byerly feature carpeting, chandeliers, and extra wide aisles. Product mix ranges from the traditional milk, eggs, and paper napkins to an extensive array of international gourmet products and gift items such as fine porcelain statues and jewelry.

Byerly says deli and prepared food sales are the "fastest growing segment" with the chain's middle-to-upper-middle-class customer base. The standard fried chicken remains popular, as do pasta salads and other salads. Salad bars are currently being installed.

As part of its extensive remodelling effort, 1,060-unit The Great Atlantic & Pacific Tea Co. (A&P) is paying close attention to its deli operations. "We're expanding our deli departments and putting in prepared foods in all our remodel units except those in low income areas," says vice president of marketing and corporate affairs Michael Rourke. "In the low-income areas we try to appeal to the customer on price."

Looking at a service deli as a "strong image department," A&P caters to the local clientele with choices such as gourmet salads or ethnic entrees.

Chains such as the Food Emporium in New York City and Someplace Special in Washington, D.C., are gourmet supermarket concepts.

Catering adds another dimension to the service deli business. Chains of all types offer catering services, ranging from cold cut platters to elegant gourmet spreads.

A spokesman for one East Coast chain insists the service delis are a trend that will die like the others. "It is very difficult to profitably operate a service deli or bakery at competitive price points, including specialty services, and still make a profit," emphasizes a spokesman for the

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Schnucks Station restaurant maintains an entrance separate from the supermarket.

chain, which wishes not to be identified.

He explains the origin of the service deli trend as his chain sees it: "The traditional supermarket faces strong competition today from 'super stores' and 'warehouse stores.' With only 30,000 sq. ft. on average, supermarkets can carry only a limited selection of goods. The 50,000-sq.-ft. super stores have the space to carry a significantly larger mix including 20 percent non-food items. (These are not to be confused with 'hyper markets,' a handful of 80,000-sq.-ft. food stores around the country.) Warehouse stores, basically no-frills concepts, challenge the supermarkets with low prices.

"The question is, 'What does a conventional supermarket do when confronted with a super store on one side and much lower prices on the other?' " the spokesman asks. "It tries to upgrade its product mix and add service departments.

"Upgrading was the rage of 1983, but it has been a failure," he continues. "Supermarkets have not been able to get enough business out of those departments to pay for the additional labor or other expenses."

This chain, as a result, has opted to stick with a self-service-only deli. Freshly sliced meats and cheeses accompany packaged goods as deli department selections.

Restaurants

A majority of the supermarket chains tested seating over the last 10 years. Few have expanded the concept due to disappointing results. Although they continue to operate their test restaurants, they do not build new ones. According to FMI, only 27.6 percent of new supermarkets had foodservice facilities last year, a significant decrease from a 41.4 percent figure in 1982.

Supermarkets generally have one of two types of foodservice facilities: separate restaurants, often with table service and separate entrances; and seating in deli departments, sometimes with cafeteria service.

Indiana's Marsh chain typifies the industry's effort toward foodservice facilities. Four years ago, Marsh tested a sit-down facility that failed for three reasons, according to Chet Robie:

1. The supermarket chain didn't know how to run a foodservice facility.

2. Merchandising had to be approached differently.

3. Labor rates were a high $6 an hour, whereas restaurants can get by with a much lower minimum salary.

In Boise, Idaho, Albertson's Inc., has decided to eliminate seating from its 435 stores as they undergo remodelling. Distressed that it was "half in the deli business and half in the restaurant business," the chain's remodels offer a few hot prepared foods for take-out but concentrate on luncheon meats and cheeses.

"We have one or two delis with sit-down areas, but we don't see a future in it," says Paul Garrison, executive vice president of Birmingham, Alabama-based Bruno's Inc.

The sit-down delis feature cold cuts and hot meals. Held at a steamtable, choices include four meat dishes, four vegetables, and french fries daily.

The installation of sit-down delis the last two years required a major effort; the seating areas were architecturally laid out as part of the building plan. Garrison attributes the restaurants' low sales to the chain's clientele. "Our stores are mostly in rural areas, so our customers are not the ones who would generate a strong repeat business."

Garrison notes that the seating area was most favored in low-income areas with a large elderly population: "The seating is open to passing traffic, so senior citizens enjoy a well-balanced, inexpensive meal while they people-watch."

Although the momentum toward foodservice has slowed down, it has not stopped. Many chains are still experimenting with or expanding their seating areas or restaurants. For example, Dillon Companies, a 59-unit chain based in Hutchinson, Kansas, is adding sit-down delis in some stores. Two stores feature the delis and a third will open this year.

Dillon's foodservice facilities are seating areas where customers may bring purchased deli items. Hot food choices include casseroles, barbecued chicken or ribs, livers, and gizzards. Eight years ago, the company tested a "servateria," but that concept didn't take off due to many stores' rural locations.

A&P is adding seating to its units that do the volume to support it. In its larger Family Mart stores, A&P features a deli seating area with a light menu such as luncheon sandwiches, soup, coffee, and rolls.

Most of Tom Thumb's 56 super-

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Ambrosia celebrates the senses in Houston's Carillon Center

The Publix chain has coffee shops in three of its 277 units in Florida.

Supermarkets

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markets have prepared foods and three-quarters of those include seating areas. All new units have seats. Customers buy their meal, which in some cases is held on a steam table, at the deli counter.

Breakfast includes eggs, bacon, hash browns, toast, homemade biscuits, and sausage. For lunch, choices include chicken fried steak, fried chicken, salisbury steak, beef stroganoff, pepper steak, and lasagna. Average check is $3.

"I'll admit, labor costs are high; we pay supermarket rates, not restaurant rates," says Carroll Brown, vice president of deli/bakery operations for the Texas division of parent company Cullum. "We try to offset that problem with a full line of bakery and deli products, and with cross training. None of our employees is only a fast order cook; each can work a number of stations," he says.

In keeping with its full-service image, Byerly's goes all out with its foodservice. "Our restaurants are open 24 hours a day, and 60 percent of our foodservice customers come only to eat," Don Byerly says. Four of his supermarkets have 150-200-seat restaurants; a fifth unit has a 40-seat lunch counter.

For an average check of $3, Byerly's serves up "Midwest home-cooked meals" such as broiled steaks, soups, and chili.

Byerly says his customer varies from the after-theater crowd to housewives and office workers.

Down in Florida, the Publix chain has been a leader in the supermarket restaurant movement. Three of the 277 Publix units have 94-seat table service coffee shops. "We serve a coffee shop type of menu with items cooked to order," spokesman Mark Hollis explains.

Publix introduced the concept in 1977, and added the others in 1979 and 1982. All are in upper middle and upper income areas, and near a shopping center so both shoppers and mall employees can frequent the foodservice facilities.

Hollis won't release restaurant sales; he just reports that they're "basically profitable." No new facilities are planned, though the company does not rule out the possibility of a restaurant in a large new superstore.

"Somewhat profitable" is how Schnucks Markets vice president of restaurant operations Ted Todd describes the success of that chain's restaurants. Based in Bridgeton, Missouri, Schnucks has restaurants in one-third of its 62 stores.

The Schnucks Station Restaurants feature a railroad theme which attracts both supermarket shoppers and outside traffic.

With 100 to 175 seats, including 30 to 40 counter seats, the table service restaurants serve a variety of hot and cold meals. Open from 6:30 a.m. to 9 p.m., the restaurants have a strong repeat business for breakfast and lunch.

"With the national growth in eating out, our restaurants help us keep those dollars within the company," Todd adds. "This is our opportunity to recapture those lost dollars."

The most recent Schnucks Markets have not incorporated restaurants because of high building and labor costs, but the company is considering including them again.

Bakeries

Fresh baked goods are supplementing prepackaged breads and

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SUPERMARKET SALES AND SERVICES

	Number of Supermarkets	$ Sales (billions)	% with service deli	% with on-premise bake-off	% with catering	% with on-premise scratch bakery	% with self-service deli	% with salad bar	% with snack bar	% with sit-down restaurant/ cafeteria
1973	40,960	89.150	26	13	9	8	N/A	N/A	6	N/A
1974	31,430	93.960	37	19	12	16	N/A	N/A	10	N/A
1975	31,710	103.690	34	20	13	15	N/A	N/A	10	N/A
1976	32,700	114.750	33	20	12	12	N/A	N/A	8	N/A
1977	33,400	138.470	36	23	13	14	N/A	N/A	9	N/A
1978	33,600	154.100	40	26	13	14	N/A	N/A	8	N/A
1979	34,900	102.830	41	26	14	17	N/A	N/A	11	N/A
1980	34,900	170.700	42	24	10	15	28	N/A	9	4
1981	28,680	171.620	49	29	12	16	31	N/A	9	5
1982	28,950	180.700	50	30	14	17	N/A	N/A	N/A	8
1983	29,550	189.170	53	36	15	17	25	8	N/A	11

N/A—These figures are not available.
Source: Progressive Grocer *Magazine*

pies in today's supermarkets. Two types of baked goods dominate the trend. One is scratch products, made in the supermarket. The other is bake-off, meaning products partially made elsewhere but finished in the store.

Some bakeries feature service, while others are self-serve. Self-serve reduces labor costs, but fear of tampering or unsatisfactory sanitation practices make operators wary.

According to *Supermarket Business*, 61 percent of U.S. supermarkets increased bakery sales in 1982 over 1981.

Carroll Brown of Cullum explains why his Tom Thumb stores use primarily bake-off products. "With bake-off, we're assured of fine and qualified bakers," he says. "With 45 bakeries, one in each store, it would be difficult to find enough qualified bakers. Secondly, we save money on space and equipment in the stores."

Cullum's bakery selection includes wedding cakes, donuts, breads, rolls, pies, and more. Customers help themselves to breads and rolls, while cakes and other items are served to them.

Perhaps Chuck Flowers of Lucky Stores best summarizes the movement toward bakeries, service delis, and restaurants: "When I started with Lucky 35 years ago it had service delis, bakeries, and snack bars. Now, the unit I started in doesn't have any of those things. The trend is to add them again. You know how the saying goes, 'What goes around comes around.' "

Gourmet take-out

Consumer interest in finer foods has also benefitted the entrepreneur. The country's major cities, and some other areas, are seeing a proliferation of gourmet take-out-only stores. Some are tied to restaurants, some to catering businesses, and some stand completely on their own.

A pioneer in the business was Zabar's, a Manhattan institution that began as a smoked fish counter 50 years ago. Two doors away from its original upper west side location, Zabar's serves enormous quantities of foods to 35,000 customers a week.

Other New York shops such as Balducci's, Dean & DeLuca, and DDL Foodshow also target the city's gourmands. And with smaller premises and smaller reputations, neighborhood take-out gourmet shops can be found on many streets.

In Houston, caterer Anne Staggs has introduced Ambrosia, "A Celebration of the Senses." Located in the city's Carillon Center, Ambrosia attracts its customers with fresh baked breads, pastries, potted herbs, and fresh pasta. Prepared foods such as champagne chicken, poached salmon, and moussaka round out the menu.

Gaper's Chefs de Cuisine is a similar concept recently opened in Chicago. Main courses, soups and chowders, salads, and desserts, as well as wines and champagnes, all are offered. Entrees for take-out include lamb en croute, saddle of veal with morels, breast of capon with green chili salza, roasted duck with green peppercorn sauce, salmon coulibiac with lemon beurre blanc, and crab gougere with lobster sauce.

Convito Italiano recently opened a Chicago unit, after a successful venture in Wilmette, Illinois. Conceived as "a kind of bridge between America and Italy," Convito Italiano features a large inventory of gourmet salads and prepared foods for take-out.

Convito Italiano encompasses seven shops: a deli, a grocery, a pasta and sauce counter, a wine shop, a hot prepared foods section, an on-premise bakery, and a small cafe.

In Kansas City, Hallmark's American Foodservice Enterprises' Blue Ribbon Delicatessen sells numerous pates, prepared foods, and hearty sandwiches for take-out only. As in many other gourmet take-out stores, the shop's shelves are lined with a large variety of packaged gourmet specialty items for retail sale.

Byerly's restaurants, open 24 hours, offer home-style meals to their Midwest customers.